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**CLOSE BROTHERS
DEVELOPMENT VCT PLC**

**Interim report
for the six months to
30 June 2004
(Unaudited)**

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Directors and administration

| | |
|--|---|
| Directors | R M Davidson, Chairman F K Malcolm BSc D C Pinckney MA FCA J G T Thornton MA MBA FCA |
| Investment manager | Close Venture Management Limited 4 Crown Place London EC2A 4BT Tel: 020 7422 7830 |
| Secretary and registered office | Catherine Kinnear ACA 10 Crown Place London EC2A 4FT |
| Registrar | Capita Registrars Limited Northern House Penistone Road Fenay Bridge Huddersfield HD8 0LA |
| Independent reporting accountants | Deloitte & Touche LLP London |
| Taxation adviser | Ernst & Young LLP 1 More London Place London SE1 2AF |

Chairman's statement

Introduction

The investment strategy of the Company is to establish a diversified portfolio of holdings in smaller, unquoted companies whilst at the same time selecting and structuring investments in such a way as to reduce the risk normally associated with investment in such companies. This is achieved as follows:

- Qualifying Investments representing approximately 80 per cent. of net funds raised, comprise investments in businesses across a broad spread of industries.
- Up to two thirds of Qualifying Investments comprising debt secured on "bankable" assets. This debt generates a significant proportion of the total anticipated return from individual investments.
- Up to 20 per cent. of net funds raised being in Non-Qualifying Investments comprising fixed and floating interest rate securities, financial instruments and short term money market deposits all issued by, or with, major banks with a Moody's credit rating of at least A.

Investment progress

The period under review saw a further 'C' Share issue, in which the Company raised a total of £7 million for the 2003/04 season, which takes the total fundraising for the 'C' Shares to £18.6 million. This will enable the Company to diversify and develop further its investment portfolio.

Two investments in new companies were made during the period; £827,000 in Bold Pub Company, which owns 11 freehold pubs in North West England, and £1,000,000 in Grosvenor Healthcare, which provides healthcare services to large corporates (with a further amount of £750,000 reserved for investment in the following tax year). Both companies are trading ahead of expectations. In addition, a further £238,000 was invested in Automotive Technik, to fund working capital following a substantial order from the New Zealand Ministry of Defence which also led to an increase in the company's valuation. This was partially balanced by an additional writedown of the Q Gardens Company, where a further £65,000 was invested to support trading, and a provision against Consolidated Communications in view of market ratings.

Overall, this led to a 0.8 pence decline in the net asset value per Ordinary share, and a 1.5 pence increase in the net asset value per 'C' Share. Following the half year the investment in Leisure Links International was sold, realising a capital loss of £213,000 for the Ordinary Share portfolio. Despite the continuing depressed level of the Ordinary Share's NAV, we consider that the prospects for the portfolio as a whole are encouraging.

Results and dividends

As at 30 June 2004 the net asset value of the Ordinary Share portfolio was £10.8 million, (2003: £11.4 million), equivalent to 75.5 pence per share (2003: 78.3 pence) for the Ordinary Shares, while the 'C' Share portfolio was £17.7 million, (2003: £11.0 million), or 94.3 pence per share (2003: 94.3 pence). Net income after taxation for the Ordinary Shares was £200,000 for the six months, (2003: £311,000) and the board declares a maintained net interim dividend of 1.8 pence per Ordinary Share (2003: 1.8 pence per share). Net income after taxation for the 'C' Share portfolio was £201,000 (2003: £60,000), enabling an interim dividend of 1.1 pence to be paid (2003: 0.75pence) (Nil for those shareholders who subscribed after 31 December 2003). Dividends are payable on 15 October 2004 to those shareholders registered on 1 October 2004.

The following is the total return of the Company since launch in January 1999.

| | Pence per Ordinary Share | Pence per 'C' Share |
|--|--------------------------|---------------------|
| Dividends declared for the period ended 31 December 1999 | 2.50 | - |
| Dividends declared for the year to 31 December 2000 | 3.75 | - |
| Dividends declared for the year to 31 December 2001 | 4.00 | - |
| Dividends declared for the year to 31 December 2002 | 4.50 | - |
| Dividends declared for the year to 31 December 2003 | 4.00 | 1.65 |
| Interim dividend for the six months to 30 June 2004 | <u>1.80</u> | <u>1.10</u> |
| | 20.55 | 2.75 |
| Net asset value at 30 June 2004 | <u>75.50</u> | <u>94.34</u> |
| Total return at 30 June 2004 | <u>96.05</u> | <u>97.09</u> |

R M Davidson
Chairman

20 September 2004

R M Davidson

Portfolio summary

ORDINARY SHARE PORTFOLIO

| Company | Equity owned | Invested at cost | Unrealised appreciation /(depreciation) | Total value |
|--|-----------------|---------------------|---|----------------|
| | | £'000 | £'000 | £'000 |
| <u>Careforce Staffing Limited</u> | | | | |
| Careforce was established in 1999 to build, both organically and through acquisition, a group providing home care services to the elderly, principally on behalf of local authorities. Careforce currently operates nine branches around the UK. | 30% | 1,740 | 724 | 2,464 |
| <u>Odyssey Clubs Group Limited</u> | | | | |
| Odyssey owns a 30,000 sq.ft. health and fitness club on an 11 acre site outside Stevenage and has a 50% stake in a company which owns a 30,000 sq.ft. club on a 6 acre site outside Beaconsfield in Buckinghamshire. | 16% | 1,737 | (306) | 1,431 |
| <u>Dolphin Nurseries Limited</u> | | | | |
| Dolphin aims at building a group of private children's day nurseries in and around Greater London. The company currently operates five nurseries at Upminster, Chigwell, Bracknell, Tooting and Kingston-upon-Thames. | 16% | 1,049 | 354 | 1,403 |
| <u>Peakdale Molecular Limited</u> | | | | |
| Peakdale Molecular is a Derbyshire based contract chemistry company, developing and providing pharmaceutical customers with novel compounds for use in later stage drug discovery. | 9% | 1,064 | (77) | 987 |
| <u>Leisure Links International Limited</u> | | | | |
| Leisure Links was formed to own and operate the golf course at Test Valley in Hampshire. | 26% | 1,100 | (213) | 887 |
| <u>Consolidated Communications Management Limited</u> | | | | |
| Consolidated Communications is a management buy-out of an established public relations company, formed in 1991, with a broad range of 'blue chip' clients. | 11% | 1,000 | (12) | 988 |
| <u>Automotive Technik Limited</u> | | | | |
| Automotive manufactures the Pinzgauer off-road vehicle. Automotive Technik's main clients include the UK Ministry of Defence and overseas armed forces. | 11% | 770 | 188 | 958 |

| Company | Equity owned | Invested at cost £'000 | Unrealised appreciation /(depreciation) £'000 | Total value £'000 |
|--|--------------|---------------------------|---|----------------------|
| <u>The Q Garden Company Limited</u> | | | | |
| Q Garden was formed to own and operate garden centres, and now has three sites in Fareham, Chinnor and Stow-on-the-Wold. | 17% | 583 | (458) | 125 |
| <u>City Screen (Liverpool) Limited</u> | | | | |
| City Screen was formed to own and operate a three screen 'art house' cinema in the centre of Liverpool, which opened in February 2003. | 5% | 50 | (5) | 45 |
| <u>The Bold Pub Company Limited</u> | | | | |
| The Bold Pub Company was formed to acquire a group of ten freehold and long leasehold pubs in the North West of England and is aiming to increase the size of its portfolio. | 4% | 130 | 14 | 144 |
| <u>Grosvenor Health Limited</u> | | | | |
| Grosvenor Health was formed to acquire the UK occupational healthcare business of Capio, which provides healthcare services to large corporates. | 6% | 325 | 3 | 328 |
| <u>Total Qualifying investments held at 30 June 2004</u> | | <u>9,548</u> | <u>212</u> | <u>9,760</u> |
| 'C' SHARE PORTFOLIO | | | | |
| <u>Careforce Staffing Limited</u> | | | | |
| Further financing | 6% | 910 | 30 | 940 |
| <u>Peakdale Molecular Limited</u> | | | | |
| Further financing | 3% | 133 | (67) | 66 |
| <u>City Centre Breweries Limited</u> | | | | |
| City Centre Breweries owns the freehold Smiles brewery in central Bristol, and operates two pubs. | 24% | 750 | (113) | 637 |
| <u>Automotive Technik Limited</u> | | | | |
| Further financing | 9% | 650 | 192 | 842 |
| <u>The Bold Pub Company Limited</u> | | | | |
| Further financing | 18% | 540 | 57 | 597 |
| <u>Grosvenor Health Limited</u> | | | | |
| Further financing | 29% | 675 | (1) | 674 |
| <u>Total Qualifying investments held at 30 June 2004</u> | | <u>3,658</u> | <u>98</u> | <u>3,756</u> |

Independent review report to Close Brothers Development VCT PLC

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2004 which comprises the Statement of total return, the Balance sheet, the Cash flow statement and related notes 1 to 9. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

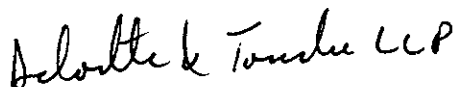
The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2004.



Deloitte & Touche LLP
Chartered Accountants
London

20 September 2004

**Statement of total return
(incorporating the revenue account)
for the six months to 30 June 2004**

Ordinary Shares

| | | Unaudited Six months to 30 June 2004 | | | Unaudited Six months to 30 June 2003 | | | Audited Year to 31 December 2003 | | |
|--|-----|--|------------------|----------------|--|------------------|----------------|--|------------------|----------------|
| | | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Gains/(losses) on investments | 3 | - | 2 | 2 | - | (255) | (255) | - | (443) | (443) |
| Income | 4 | 361 | - | 361 | 515 | - | 515 | 976 | - | 976 |
| Investment management fees | 2 | (36) | (108) | (144) | (34) | (102) | (136) | (67) | (201) | (268) |
| Other expenses | 2 | (43) | - | (43) | (45) | (13) | (58) | (93) | (26) | (119) |
| Return on ordinary activities before tax | | 282 | (106) | 176 | 436 | (370) | 66 | 816 | (670) | 146 |
| Tax on ordinary activities | 2&5 | (82) | 35 | (47) | (125) | 30 | (95) | (226) | 74 | (152) |
| Return attributable to equity shareholders | | 200 | (71) | 129 | 311 | (340) | (29) | 590 | (596) | (6) |
| Dividends | 6 | (257) | - | (257) | (262) | - | (262) | (583) | - | (583) |
| Transfer (from)/to reserves | | (57) | (71) | (128) | 49 | (340) | (291) | 7 | (596) | (589) |
| Return per share | 7 | 1.4p | (0.5)p | 0.9p | 2.1p | (2.3)p | (0.2)p | 4.0p | (4.0)p | (0.0)p |

The accompanying notes are an integral part of this statement.

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued during the period.

**Statement of total return
(incorporating the revenue account)
for the six months to 30 June 2004**

'C' Shares

| | | Unaudited Six months to 30 June 2004 | | | Unaudited Six months to 30 June 2003 | | | Audited Year to 31 December 2003 | | |
|---|-----|--|------------------|----------------|--|------------------|----------------|--|------------------|----------------|
| | | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Gains/(losses) on investments | 3 | - | 128 | 128 | - | 2 | 2 | - | (65) | (65) |
| Income | 4 | 365 | - | 365 | 128 | - | 128 | 347 | - | 347 |
| Investment management fees | 2 | (36) | (108) | (144) | (33) | (97) | (130) | (65) | (194) | (259) |
| Other expenses | 2 | (45) | - | (45) | (35) | (12) | (47) | (75) | (24) | (99) |
| Return on ordinary activities before tax | | 284 | 20 | 304 | 60 | (107) | (47) | 207 | (283) | (76) |
| Tax on ordinary activities | 2&5 | (83) | 36 | (47) | - | 26 | 26 | (39) | 43 | 4 |
| Return attributable to equity shareholders | | 201 | 56 | 257 | 60 | (81) | (21) | 168 | (240) | (72) |
| Dividends | 6 | (129) | - | (129) | (53) | - | (53) | (157) | - | (157) |
| Transfer to/(from) reserves | | 72 | 56 | 128 | 7 | (81) | (74) | 11 | (240) | (229) |
| Return per share | 7 | 1.3p | 0.4p | 1.7p | 0.8p | (1.1)p | (0.3)p | 1.8p | (2.5)p | (0.7)p |

The accompanying notes are an integral part of this statement.

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued during the period.

**Statement of total return
(incorporating the revenue account)
for the six months to 30 June 2004**

Total

| | Notes | Unaudited Six months to 30 June 2004 | | | Unaudited Six months to 30 June 2003 | | | Audited Year to 31 December 2003 | | |
|--|-------|--|------------------|----------------|--|------------------|----------------|--|------------------|----------------|
| | | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Gains/(losses) on investments | 3 | - | 130 | 130 | - | (253) | (253) | - | (508) | (508) |
| Income | 4 | 726 | - | 726 | 643 | - | 643 | 1,323 | - | 1,323 |
| Investment management fees | 2 | (72) | (216) | (288) | (67) | (199) | (266) | (132) | (395) | (527) |
| Other expenses | 2 | (88) | - | (88) | (80) | (25) | (105) | (168) | (50) | (218) |
| Return on ordinary activities before tax | | 566 | (86) | 480 | 496 | (477) | 19 | 1,023 | (953) | 70 |
| Tax on ordinary activities | 2&5 | (165) | 71 | (94) | (125) | 56 | (69) | (265) | 117 | (148) |
| Return attributable to equity shareholders | | 401 | (15) | 386 | 371 | (421) | (50) | 758 | (836) | (78) |
| Dividends | 6 | (386) | - | (386) | (315) | - | (315) | (740) | - | (740) |
| Transfer to/(from) reserves | | 15 | (15) | - | 56 | (421) | (365) | 18 | (836) | (818) |

The revenue columns of this statement represent the profit and loss account of the Company.

The accompanying notes are an integral part of this statement.

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued during the period.

**Balance sheet
as at 30 June 2004**

Ordinary Shares

| | Notes | Unaudited 30 June 2004 £'000 | Unaudited 30 June 2003 £'000 | Audited 31 December 2003 £'000 |
|---|-------|------------------------------------|------------------------------------|--------------------------------------|
| Fixed asset investments | | | | |
| Qualifying | 2 | 9,760 | 10,484 | 9,163 |
| Non-qualifying | | - | - | - |
| Total fixed asset investments | | 9,760 | 10,484 | 9,163 |
| Current assets | | | | |
| Debtors | | 78 | 347 | 35 |
| Cash: short term money market deposits | | <u>1,593</u> | <u>1,195</u> | <u>2,468</u> |
| | | 1,671 | 1,542 | 2,503 |
| Creditors: due within one year | | <u>(644)</u> | <u>(611)</u> | <u>(580)</u> |
| Net current assets | | <u>1,027</u> | <u>931</u> | <u>1,923</u> |
| Net assets | | <u>10,787</u> | <u>11,415</u> | <u>11,086</u> |
| Represented by: | | | | |
| Called up share capital | | 7,144 | 7,287 | 7,264 |
| Share premium | | 48 | 48 | 48 |
| Special reserve | | 6,245 | 6,447 | 6,416 |
| Capital redemption reserve | | 241 | 97 | 120 |
| Capital reserve | | | | |
| - realised | | (2,240) | (1,953) | (2,166) |
| - unrealised | | (664) | (623) | (666) |
| Revenue reserve | | <u>13</u> | <u>112</u> | <u>70</u> |
| Total equity shareholders' funds | | <u>10,787</u> | <u>11,415</u> | <u>11,086</u> |
| Net asset value per share | | 75.5p | 78.3p | 76.3p |

**Balance sheet
as at 30 June 2004**

'C' Shares

| | Notes | Unaudited 30 June 2004 £'000 | Unaudited 30 June 2003 £'000 | Audited 31 December 2003 £'000 |
|---|-------|------------------------------------|------------------------------------|--------------------------------------|
| Fixed asset investments | | | | |
| Qualifying | 2 | 3,756 | 393 | 2,236 |
| Non-qualifying | | <u>6,003</u> | <u>6,000</u> | <u>6,002</u> |
| Total fixed asset investments | | 9,759 | 6,393 | 8,238 |
| Current assets | | | | |
| Debtors | | 52 | (71) | 51 |
| Cash: Short term money market deposits | | <u>8,169</u> | <u>4,915</u> | <u>2,792</u> |
| | | 8,221 | 4,844 | 2,843 |
| Creditors: due within one year | | <u>(310)</u> | <u>(188)</u> | <u>(200)</u> |
| Net current assets | | <u>7,911</u> | <u>4,656</u> | <u>2,643</u> |
| Net assets | | <u>17,670</u> | <u>11,049</u> | <u>10,880</u> |
| Represented by: | | | | |
| Called up share capital | | 9,366 | 5,859 | 5,859 |
| Share premium | | 3,160 | 5,273 | - |
| Special reserve | | 5,251 | - | 5,259 |
| Capital redemption reserve | | 5 | - | - |
| Capital reserve | | | | |
| - realised | | (255) | (89) | (182) |
| - unrealised | | 63 | 2 | (64) |
| Revenue reserve | | <u>80</u> | <u>4</u> | <u>8</u> |
| Total equity shareholders' funds | | <u>17,670</u> | <u>11,049</u> | <u>10,880</u> |
| Net asset value per share | | 94.3p | 94.3p | 92.8p |

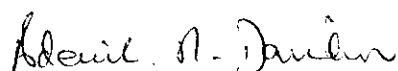
**Balance sheet
as at 30 June 2004**

Total

| | Notes | Unaudited 30 June 2004 £'000 | Unaudited 30 June 2003 £'000 | Audited 31 December 2003 £'000 |
|---|-------|------------------------------------|------------------------------------|--------------------------------------|
| Fixed asset investments | | | | |
| Qualifying | 2 | 13,516 | 10,877 | 11,399 |
| Non-qualifying | | <u>6,003</u> | <u>6,000</u> | <u>6,002</u> |
| Total fixed asset investments | | 19,519 | 16,877 | 17,401 |
| Current assets | | | | |
| Debtors | | 130 | 276 | 86 |
| Cash: Short term money market | | <u>9,762</u> | <u>6,110</u> | <u>5,260</u> |
| Deposits | | 9,892 | 6,386 | 5,346 |
| Creditors: due within one year | | <u>(954)</u> | <u>(799)</u> | <u>(780)</u> |
| Net current assets | | <u>8,938</u> | <u>5,587</u> | <u>4,566</u> |
| Net assets | | <u>28,457</u> | <u>22,464</u> | <u>21,966</u> |
| Represented by: | | | | |
| Called up share capital | | 16,510 | 13,146 | 13,123 |
| Share premium | | 3,208 | 5,321 | 48 |
| Special reserve | | 11,496 | 6,447 | 11,675 |
| Capital redemption reserve | | 246 | 97 | 120 |
| Capital reserve | | | | |
| - realised | | (2,495) | (2,042) | (2,348) |
| - unrealised | | (601) | (621) | (730) |
| Revenue reserve | | <u>93</u> | <u>116</u> | <u>78</u> |
| Total equity shareholders' funds | | <u>28,457</u> | <u>22,464</u> | <u>21,966</u> |

The interim information on pages 6 to 17 were approved by the Board of Directors on 20 September 2004.

Signed on behalf of the Board of Directors



Roderick Davidson
Chairman

**Cash flow statement
for the six months to 30 June 2004**

Ordinary Shares

| | Unaudited Six months to 30 June 2004 £'000 | Unaudited Six months to 30 June 2003 £'000 | Audited Year to 31 December 2003 £'000 |
|--|---|---|---|
| Operating activities | | | |
| Investment income received | 193 | 228 | 860 |
| Deposit interest received | 40 | 28 | 67 |
| Investment management fees paid | (147) | (138) | (272) |
| Other cash payments | (74) | (91) | (128) |
| Net cash inflow from operating activities | 12 | 27 | 527 |
| Taxation | | | |
| UK corporation tax paid | - | - | (155) |
| Capital expenditure and financial investments | | | |
| Purchase of qualifying investments | (472) | (564) | (698) |
| Purchase of non-qualifying investments | - | - | - |
| Disposal of non-qualifying investments | - | - | 1,500 |
| Disposals of non-qualifying investments | - | 1,500 | 1,355 |
| Net cash (outflow)/inflow from investing activities | (472) | 936 | 2,157 |
| Equity dividends paid | | | |
| Dividends paid on ordinary shares | (319) | (396) | (658) |
| Net cash (outflow)/inflow before financing | (779) | 567 | 1,871 |
| Financing | | | |
| Issue of equity net of expenses | - | - | - |
| Cancellation of shares | (96) | (66) | (97) |
| (Decrease)/increase in cash | (875) | 501 | 1,774 |

**Cash flow statement
for the six months to 30 June 2004**

'C' Shares

| | Unaudited Six months to 30 June 2004 £'000 | Unaudited Six months to 30 June 2003 £'000 | Audited Year to 31 December 2003 £'000 |
|--|---|---|---|
| Operating activities | | | |
| <i>Investment income received</i> | 241 | (5) | 118 |
| Deposit interest received | 89 | 95 | 173 |
| Investment management fees paid | (144) | (10) | (205) |
| Other cash payments | (5) | (3) | (88) |
| Net cash inflow/(outflow) from operating activities | 181 | 77 | (2) |
| Taxation | | | |
| UK corporation tax paid | - | - | - |
| Capital expenditure and financial investments | | | |
| Purchase of qualifying investments | (1,362) | (6,131) | (2,293) |
| Purchase of non-qualifying investments | - | - | (5,998) |
| Disposals of non-qualifying investments | - | - | - |
| Net cash outflow from investing activities | (1,362) | (6,131) | (8,291) |
| Equity dividends paid | | | |
| Dividends paid on ordinary shares | (105) | - | (53) |
| Net cash outflow before financing | (1,286) | (6,054) | (8,346) |
| Financing | | | |
| Issue of equity net of expenses | 6,672 | 9,482 | 9,665 |
| Cancellation of shares | (9) | - | (14) |
| Net cash inflow from financing | 6,663 | 9,482 | 9,651 |
| Increase in cash | 5,377 | 3,428 | 1,305 |

**Cash flow statement
for the six months to 30 June 2004**

Total

| | Unaudited Six months to 30 June 2004 £'000 | Unaudited Six months to 30 June 2003 £'000 | Audited Year to 31 December 2003 £'000 |
|--|---|---|---|
| Operating activities | | | |
| Investment income received | 434 | 223 | 978 |
| Deposit interest received | 129 | 123 | 240 |
| Investment management fees paid | (291) | (148) | (477) |
| Other cash payments | (79) | (94) | (216) |
| Net cash inflow from operating activities | 193 | 104 | 525 |
| Taxation | | | |
| UK corporation tax paid | - | - | (155) |
| Capital expenditure and financial investments | | | |
| Purchase of qualifying investments | (1,834) | (6,695) | (2,991) |
| Purchase of non-qualifying investments | - | - | (5,998) |
| Disposals of qualifying investments | - | - | 1,500 |
| Disposals of non-qualifying investments | - | 1,500 | 1,355 |
| Net cash outflow from investing activities | (1,834) | (5,195) | (6,134) |
| Equity dividends paid | | | |
| Dividends paid on ordinary shares | (424) | (396) | (711) |
| Net cash outflow before financing | (2,065) | (5,487) | (6,475) |
| Financing | | | |
| Issue of equity net of expenses | 6,672 | 9,482 | 9,665 |
| Cancellation of shares | (105) | (66) | (97) |
| Cost of share premium cancellation | - | - | (14) |
| Net cash inflow from financing | 6,567 | 9,416 | 9,554 |
| Increase in cash | 4,502 | 3,929 | 3,079 |

Notes to the interim results

1. Principal activity

The principal activity of the Company is that of a Venture Capital Trust. It was approved by the Inland Revenue as a Venture Capital Trust in accordance with Section 842AA of the Income and Corporation Taxes Act and subsequently conducts its affairs so as to enable it to continue to retain such status. The Company is not a close company for taxation purposes. Details of the principal investments made by the Company are given above in the review of the portfolio of investments. A review of the Company's business during the period is contained in the Chairman's statement.

The Company is an investment company as defined in Section 266 of the Companies Act 1985.

2. Accounting policies

The principal accounting policies of the Company all of which have been applied consistently throughout the period and the preparation of the accounts are set out below.

Accounting convention

The financial statements are prepared under the historic cost convention, modified by the revaluation of certain investments. The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (SORP) in all material aspects. The particular accounting policies adopted are described below.

Investments

Investments listed on recognised exchanges are stated at market value based upon middle market prices at the end of the accounting period. Unquoted investments are stated at a valuation determined by the directors in accordance with the British Venture Capital Association guidelines. Amounts accrued under redemption premium on secured loan stock are dealt with in the fixed asset investments of the Company. The unrealised depreciation or appreciation on the valuation of investments and gains and losses arising on the disposal of investments are dealt with in the capital reserve.

It is not the Company's policy to exercise controlling or significant influence over investee companies. Therefore the results of these companies are not incorporated into the revenue account except to the extent of any income accrued.

Income and expenses

All income and expenses are treated on the accruals basis and dividend income is included in revenue when an investment is quoted ex-dividend. Any fixed returns on non-equity shares or debt securities are recognised on a time apportionment basis.

Management expenses

75 per cent. of management expenses, representing the proportion of the fees attributable to the enhancement of the value of the investments of the Company, have been charged to capital reserves, net of corporation tax. All other expenses are charged to the revenue account.

Issue costs

Issue costs associated with the allotment of Ordinary and 'C' Share capital have been deducted from the share premium account in accordance with Financial Reporting Standard No. 4.

Taxation

Taxation is applied on a current basis in accordance with Financial Reporting Standard No.16. Taxation associated to capital expenses is applied in accordance with the SORP. In accordance with Financial Reporting Standard No.19, deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Notes to the interim results (continued)

Reserves

Capital reserves – realised

The following are taken to this reserve:

- (i) gains and losses on the realisation of investments; and
- (ii) expenses, together with the related taxation effect, charged in accordance with the above policies.

Capital reserves – unrealised

The following are taken to this reserve:

- (i) increases and decreases in the valuation of investments held at the period end.

3. Gains/(losses) on investments

| | Six months to 30 June 2004 | | | Six months to 30 June 2003 | | |
|---------------------------|-----------------------------|------------------------|----------------|-----------------------------|------------------------|----------------|
| | Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 | Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 |
| Realised gains | - | - | - | 1 | 2 | 3 |
| Unrealised gains/(losses) | <u>2</u> | <u>128</u> | <u>130</u> | <u>(256)</u> | <u>-</u> | <u>(256)</u> |
| | <u>2</u> | <u>128</u> | <u>130</u> | <u>(255)</u> | <u>2</u> | <u>(253)</u> |

4. Income

| | Six months to 30 June 2004 | | | Six months to 30 June 2003 | | |
|----------------------------------|-----------------------------|------------------------|----------------|-----------------------------|------------------------|----------------|
| | Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 | Ordinary Shares £'000 | 'C' Shares £'000 | Total £'000 |
| Interest from investments | | | | | | |
| Qualifying investments | 321 | 154 | 475 | 482 | 1 | 483 |
| Non-qualifying investments | - | 120 | 120 | 5 | 32 | 37 |
| Bank deposit interest | <u>40</u> | <u>91</u> | <u>131</u> | <u>28</u> | <u>95</u> | <u>123</u> |
| | <u>361</u> | <u>365</u> | <u>726</u> | <u>515</u> | <u>128</u> | <u>643</u> |

5. Tax on ordinary activities

| Ordinary Shares | Six months to 30 June 2004 | | | Six months to 30 June 2003 | | |
|--------------------------------------|----------------------------|------------------|----------------|----------------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| UK corporation tax at 30% | 47 | - | 47 | 95 | - | 95 |
| Tax attributable to capital expenses | <u>35</u> | <u>(35)</u> | <u>-</u> | <u>30</u> | <u>(30)</u> | <u>-</u> |
| | <u>82</u> | <u>(35)</u> | <u>47</u> | <u>125</u> | <u>(30)</u> | <u>95</u> |
| 'C' Shares | Six months to 30 June 2004 | | | Six months to 30 June 2003 | | |
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| UK corporation tax at 30% | 47 | - | 47 | - | - | - |
| Tax attributable to capital expenses | <u>36</u> | <u>(36)</u> | <u>-</u> | <u>-</u> | <u>(26)</u> | <u>(26)</u> |
| | <u>83</u> | <u>(36)</u> | <u>47</u> | <u>-</u> | <u>(26)</u> | <u>(26)</u> |

Notes

- (i) Venture Capital Trusts are not subject to corporation tax upon any capital gains.
- (ii) Tax relief on expenses charged to capital has been determined by allocating tax relief to all expenses proportionately by reference to the applicable corporation tax rate of 30% and allocating the relief in the same ratio as expenses between revenue and capital.
- (iii) No deferred tax on any asset or liability has arisen in the year.
- (iv) Tax is provided at the average rate of 25 per cent.

Notes to the interim results (continued)

6. Dividends

The interim dividend in respect of the Ordinary Shares of 1.8 pence per share, amounting in total to £257,170, is in respect of 14,287,212 shares in issue at the period end. The dividend will be paid on 15 October 2004 to those shareholders who are on the register on 1 October 2004. Holders of 'C' Shares will receive a revenue dividend of 1.1 pence per share, amounting to £128,795 and is in respect of 11,708,656 shares in issue at the period end. Those shareholders who subscribed in the period ended 30 June 2004 will not receive the interim dividend but will receive a final dividend based on the next period's results. There were 1,690,580 shares issued in March 2004, 533,184 shares issued in April 2004 and a total of 18,731,050 shares at 30 June 2004.

7. Return per share

| | Six months to 30 June 2004 | | | Six months to 30 June 2003 | | |
|-----------------|----------------------------|---------|-------|----------------------------|---------|---------|
| | Revenue | Capital | Total | Revenue | Capital | Total |
| Ordinary Shares | 1.4p | (0.5)p | 0.9p | 2.1 p | (2.3) p | (0.2) p |
| 'C' Shares | 1.3p | 0.4p | 1.7p | 0.8 p | (1.1) p | (0.3) p |

Ordinary Shares

The revenue return per share is based on the net revenue on ordinary activities after taxation but before deduction of dividends for the holders of Ordinary Shares of £257,170 (2003: £311,000) in respect of 14,478,925 Ordinary Shares (2003: 14,608,515 shares), being the weighted average number of shares in issue during the six months. The capital return per share is based on net capital loss for the period of £70,989 (2003: £340,000) in respect of the same weighted average number of shares in issue over the six months.

'C' Shares

The revenue return per share is based on the net revenue on ordinary activities after taxation but before deduction of dividends for the holders of 'C' Shares of £128,795 in respect of 15,357,912 'C' Shares (2003: 7,119,359 shares), being the weighted average number of shares in issue during the six months. The capital return per share is based on net capital gain for the period of £54,985 (2003: £81,000 loss) in respect of the same weighted average number of shares in issue over the six months.

8. Other information

The financial information set out in the interim report announcement does not constitute the Company's statutory accounts for the six months ended 30 June 2004 and 2003. The financial information for the year ended 31 December 2003 is derived from the statutory accounts delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under s237 (2) or (3) of the Companies Act 1985.

9. Publication

This interim report is being sent to shareholders and copies will be made available to the public at the registered office of the Company.